

SETTING the STAGE

DURHAM



1 8 6 9
CITY OF MEDICINE



City of Durham Citizens' Financial Report

For the Fiscal Year
Ended June 30, 2008

LETTER FROM THE CITY MANAGER

To the Citizens of the City of Durham:

Since my arrival in Durham last August, I have attempted to learn as much about this vibrant community as possible. In particular, I have focused on learning more about the issues and challenges facing the city by meeting with community members, business leaders and employees of the City of Durham organization. Thanks to everyone for welcoming me, and, most of all, for openly sharing your thoughts.

I have learned a lot about this city, but what has resonated most is that the citizens of Durham want to work together with City government to make our community a place where we're all proud to live, work and play.

I have seen the City and community working hand in hand to achieve great things. A prime example is the recent exciting opening of the Durham Performing Arts Center. Thousands of citizens braved 40 degree temperatures to publicly open our new 2,800-seat theater that will bring world class entertainment to Durham. Many more exciting developments await our community as we work together even during these uncertain economic times.

To meet our goals, the City of Durham aspires to be a high-performing organization in which all employees share common values, understanding, and causes.

That's why one of my priorities is to realign the City's departments. I believe this new alignment will compel everyone at City Hall to look at issues from the perspective of those both inside and outside the organization. The City will have three focus areas: Operations, Administration and Support, and Community Building. Operations will provide direct services to citizens, including Public Safety, Water Management, and Solid Waste Management. Administration and Support focuses on internal departments, such as Budget, Finance, and Human Resources. Community Building includes departments that help build economic capacity and create healthy neighborhoods including the Departments of City/County Planning and Inspections, Neighborhood Improvement Services and Community Development, and the Office of Economic and Workforce Development.

I am pleased to present the *Citizens' Financial Report* to provide easy to understand information about the City's financial condition...and local economic highlights.



This year's *Citizens' Financial Report* shows that the City is moving forward from a strong financial platform and is truly deserving of its AAA bond rating and clean bill of health from independent auditors. I am pleased to present the *Citizens' Financial Report* to provide easy to understand information about the City's financial condition during fiscal year July 1, 2007 through June 30, 2008 and local economic highlights.

The data presented here was obtained from the audited financial statements included in the Comprehensive Annual Financial Report (CAFR), which provides complete financial disclosure. The City's official financial statements received a favorable opinion from the City's independent auditors, McGladrey-Pullen, Inc., stating the financial statements are fairly presented in conformity with generally accepted accounting principles (GAAP).

Thank you for taking the time to read the *Citizens' Financial Report*. We are constantly searching for ways to serve you better and we welcome your feedback and ideas. Please address your comments either to me or to the City's Department of Finance at the address listed on the back cover.

Finally, during the last few months, I've learned that Durham is truly a wonderful, vibrant community. I look forward to putting down roots here and serving as your city manager for many years to come.

Sincerely,

A handwritten signature in dark ink, which appears to read "Thomas J. Bonfield". The signature is fluid and cursive.

Thomas J. Bonfield
City Manager

City Mission Statement

The City of Durham is dedicated to improving the quality of life in our community by delivering cost effective, highly responsive services with integrity and friendliness.

About the cover: The cover depicts the new Durham Performing Arts Center (DPAC), the largest performing arts theater in the Carolinas. It marks the culmination of eight years of collective research, planning and design and two years of construction. The DPAC combines the work of a world-class technical team of architects, acousticians and theater specialists. Along with the Durham Bulls Athletic Park and the American Tobacco complex nearby, the 2,800-seat theater will be a cornerstone of the redevelopment of downtown Durham.

ACCOLADES AND AWARDS

Durham Accolades:

Business Week, Durham ranked #3, best cities for riding out a recession.

Black Enterprise magazine, #1, best place to retire.

County Home magazine, #2, best Green places in America.

Bon Appetit magazine, #1, America's Foodiest Town.

Forbes.com, #6, best America's smallest cities.

Prevention magazine, #37, best walking cities.

Catalyix, #1, creative class workforce.

Sporting News, #24, best areas to be a sports fan.

Business Week, downtown rated among the top 15 up and coming neighborhoods.

U.S. News and World Report, Duke University ranked 13th among best universities.

Accolades and Awards: City Hall Programs and Employees

Director of Equal Opportunity/Equity Assurance—Winner 2008 Circle of Influence Diversity Award—Individual Category presented by the Durham Chamber of Commerce.

City of Durham's Equal Business Opportunity Program—Listed in the National League of Cities City Practices Database.

Parks and Recreation Department—One of only five agencies in the state and 79 nationwide to earn national accreditation from the Commission for Accreditation of Parks and Recreation Agencies.

Human Resources Department—Received two awards from the International Public Personnel Management Association, NC Chapter—Department Director received award for lifetime achievement and an associate received award for new member achievement.

ERP Project—Winner NC State Treasurer's Award for Excellence in Accounting & Financial Management; and, 2008 MUNIS Public Sector Excellence Award.



2008 City Council

Front row, left to right are Mayor Pro Tem Cora Cole-McFadden, Mayor William V. "Bill" Bell, Diane N. Catotti. Back row, left to right are J. Michael Woodard, Howard Clement, III, Eugene A. Brown, and Farad Ali.

Public Affairs and Durham Area Transit Authority (DATA)—City-County Communications and Marketing Association (3CMA) 20th Annual Conference recognized the City's Office of Public Affairs and DATA for two projects each for communications outreach. Public Affairs received the 2008 Silver Circle Award, a second place national award, for its "2007 Annual Report" and also received the 2008 Award of Excellence, a third place national award, for its monthly talk show "CityLife."

City/County Inspections—Senior Electrical Inspector received the NC Electrical Inspector of the Year award from the Electrical Inspectors Association of NC.

Technology Solutions—Durham received a top 10 digital city recognition by the Center for Digital Government.

Business Licenses Division—Manager named the 2008 Outstanding Business License Official by the NC Association of Business Licensing Officials.

Awards

Durham's Comprehensive Annual Financial Report (CAFR) has won the Government Finance Officers Association of the United States and Canada (GFOA) award for 23 consecutive years and Durham has received the GFOA award for Distinguished Budget Presentation for 20 consecutive years—proof our Finance and Budget Departments are repeatedly getting things right when it comes to financial planning, investments, debt management and internal auditing. To earn these Certificates of Achievement, the City must annually publish an easily readable and efficiently organized budget and CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting practices and accepted legal requirements. In addition, Durham's *Citizens' Financial Report* has received four consecutive awards for Outstanding Achievement in Popular Annual Financial Reporting from the GFOA. No wonder Durham has triple-A ratings from all three major credit rating agencies!

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

City of Durham
North Carolina

for the Fiscal Year Ended

June 30, 2007



Jeffrey L. Evers
President
Jeffrey L. Evers
Executive Director

THE CITY OF DURHAM'S BUDGET

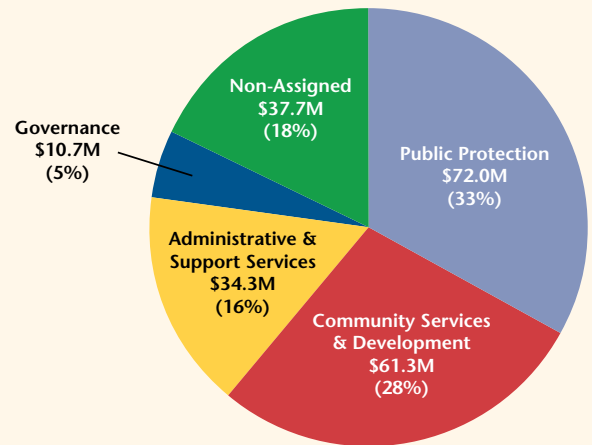
The 2008-09 Budget focuses on three broad goals: to reduce crime and its root causes; to maintain core service levels; and, to implement the Capital Improvement Program. The City's adopted budget builds upon the successes of the last few years and keeps on the course charted to achieve these goals. This year was particularly challenging due to the evolving national economic forecast and the impact it will have on the State of North Carolina and the City of Durham.

Although we are better-positioned to weather an economic downturn than many other areas of the country, this year we are projecting our revenues conservatively and consequently expect a decrease in several major revenue categories, including sales tax, business license fees and interest earnings.

A major revenue issue for the 2008-09 Budget is the property tax revaluation. This year's budget includes a property tax rate of 54 cents per \$100 of assessed value. The rate is 7.8 cents per \$100 lower than the FY 2007-08 tax rate. Of the 54 cents rate, 53.85 cents is dedicated to the General Fund to provide core services and to support debt service requirements resulting from the 2005 and 2007 bond referendums. The remaining 0.15 cent is dedicated to the Civic Center for payment of debt service. As a point of reference, the revenue neutral tax rate is what is needed to produce the same amount of revenue next year that would have come in this year without the revaluation. The revenue neutral rate is 50.05 cents per \$100 of assessed value.

To address crime, the most important issue raised by City Council and our citizens, our goal is to lower the crime rate and make citizens feel safe. Our goal is to ensure that the Police Department, Fire Department and Emergency Communications Center (911) are staffed and properly equipped to protect our citizens. At the same time, we will support other efforts directed at eliminating the root causes of crime, such as revitalizing distressed neighborhoods and providing additional youth programs.

Major Appropriations Funded in the Budget Adopted FY 2008-09



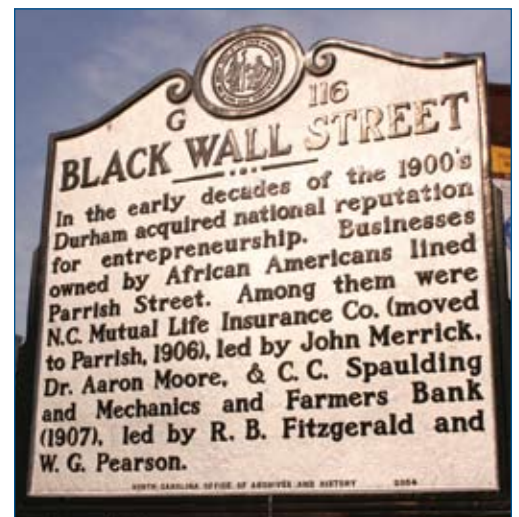
Total General Fund Appropriations Equals \$216 Million

Durham is a growing city, and maintaining service levels in a growing city requires adding resources. One of the places where we have added resources to maintain basic service levels is in the area of traditional governmental services. This includes public safety, solid waste collection, and building inspections. We have added to programs such as transit, sidewalk maintenance and repair, and the development review process, as well as continuing to invest in our water, sewer, and stormwater systems.

The FY 2009-14 Capital Improvement Program is presented to the City Council in a companion document to the FY 2008-09 annual budget. The capital improvement budget includes \$91.2 million for new projects and completing existing projects. Funding is provided through impact fees, grants, water and sewer revenues and revenue bonds, stormwater fees, general obligation bonds, certificates of participation (COPs), and general fund revenues.

Major Appropriations Funded in the Budget Year ended June 30 (Amounts in Millions)

Budget Ordinance	Adopted FY 2007-08	Adopted FY 2008-09	As % of Budget
Public Protection	\$68.4	\$72.0	33%
Community Services and Development	56.1	61.3	28%
Administrative and Support Services	32.1	34.3	16%
Governance	9.2	10.7	5%
Non-Assigned	37.7	37.7	18%
Total General Fund	\$203.5	\$216.0	100%



BUDGET HIGHLIGHTS

Improving public safety, enhancing delivery of core services, implementing our capital improvement plan, and hiring and retaining exceptional employees throughout the organization continue to be our highest priorities. To meet these expectations, the Council has adopted a budget for FY 2008-09 of \$355.5 million. This total includes:

- A general fund budget of \$216 million, which adequately funds core city services.
- A 13 percent projected increase in property tax revenue due to a tax increase and growth, plus a 33.7 percent increase in state shared revenues.
- Competitive pay for our employees remains an issue. Funding is included in this budget to implement the Pay/Classification Study conducted by an independent consultant.
- City departments will continue to hire youth for summer jobs through the Mayor's Summer Youth Works Program and encourage employees to volunteer as mentors or tutors to Durham children. It is vital to keep our youth involved in positive activities during the summer months.
- The Capital Improvement Plan includes funding for the ongoing radio replacement program and for the microwave system upgrade which links the 800MHz radio system to the 911 center.

The City continues to maintain its excellent fiscal status as evidenced in three areas: A continuing triple-A bond rating by all three rating agencies, unqualified opinions by independent auditors of the City's financial statements and compliance with major federal and state grants; and a strong Audit Services Department, ensuring compliance with applicable laws, policies and procedures. In addition to conducting audits based on risk, the department operates a "fraud, waste and abuse" hotline.



Children learn the art of drumming at the annual Bimbé Festival.



The historic renovation of downtown's Roger's Alley by Greenfire Development is part of the redevelopment of Durham's downtown core.

What's Durham's Nickname?

Question: I've heard Durham called the "Bull City" and the "City of Medicine." Which one is right?

Answer: Actually, both are right. Durham was nicknamed the "Bull City" in the late 1800s when the Blackwell Tobacco Co. named its product "Bull" Durham Tobacco. By the time James B. Duke (yes, the namesake of Duke University) of the American Tobacco Co. purchased Blackwell in 1898, Bull Durham was the most famous trademark in the world.

Durham prospered as a manufacturing center for the tobacco industry for many decades, but with the birth of Research Triangle Park in the 1950s, the city began to transform itself into a global center for information technology, biotechnology, pharmaceuticals and medicine; hence, the more recent designation the "City of Medicine."

The importance of the health care industry in Durham can be seen in the more than 300 medical and health-related companies and medical practices (with a combined payroll exceeding \$1.5 billion annually) that call Durham home. While tobacco and medicine have been vital to the shaping of the city, other entities have also contributed to the city's world-class status, including Duke and N.C. Central universities, a myriad of annual festivals and the Durham Bulls Triple-A baseball team, just to name a few.

To learn more about what Durham has to offer, visit the city's Web site at www.durhamnc.gov.

Credit Ratings

During the year the City continued to maintain the top-level credit ratings from all three major national bond rating agencies. The ratings are a reflection of the City's ability to repay its loans. Credit ratings represent objective third party opinions concerning the City's ability to meet its financial commitments. The City of Durham's credit rating listed below represent the highest given for general obligation debt:

- Moody's Aaa
- Standard and Poor's AAA
- Fitch AAA

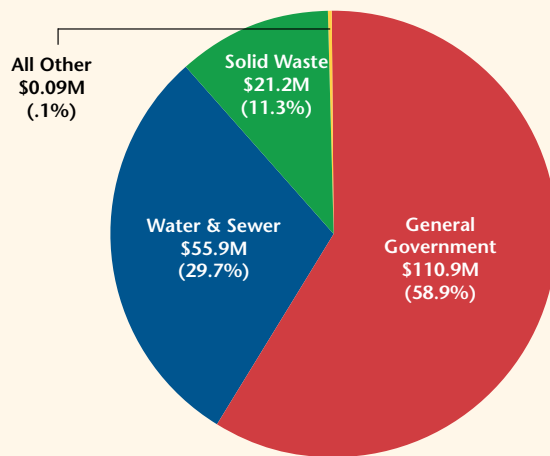
The three bond rating agencies reaffirmed their confidence in the City's financial management and its economic outlook, making the City one of the very few cities in the United States awarded this rare distinction. Only a few dozen cities throughout the United States have been granted AAA ratings, the highest rating, and only a handful can claim they have received the highest score from all three.

Each bond rating agency said it granted the AAA rating in recognition of the City of Durham's solid financial management, stable growth and its ability to support existing and planned debt obligations. The AAA bond rating by all three agencies results in lower interest rates on the bonds we sell, which in turn means savings for the taxpayers of Durham.

Bond rating agencies are independent corporations that provide assessments of a City's fiscal stability for potential investors. Ratings are intended to characterize the risk of holding a bond. These ratings, or risk assessments, in part determine the interest rate that the City must pay to attract purchasers of its bonds. Bonds which are rated AAA are judged to be of the best quality. AAA bonds carry the smallest degree of investment risk and are generally referred to as "gilt edged."

These ratings are particularly important for Durham because they lower borrowing costs to the City, saving taxpayers millions of dollars in future interest payments. High bond ratings mean the City is able to sell general obligation bonds to finance capital projects at lower interest rates, including the \$110 million bond referendum package that was approved by voters in 2005 and the \$20 million bond referendum package that was approved by voters in 2007.

Issued General Obligation Debt By Category
Year Ended June 30, 2008



Total GO Debt Equals \$188.1 Million

General Obligation Bonds

The City is permitted to issue general obligation bonds that provide long-term financing for projects for which the City pledges its full faith and credit to repay the debt.

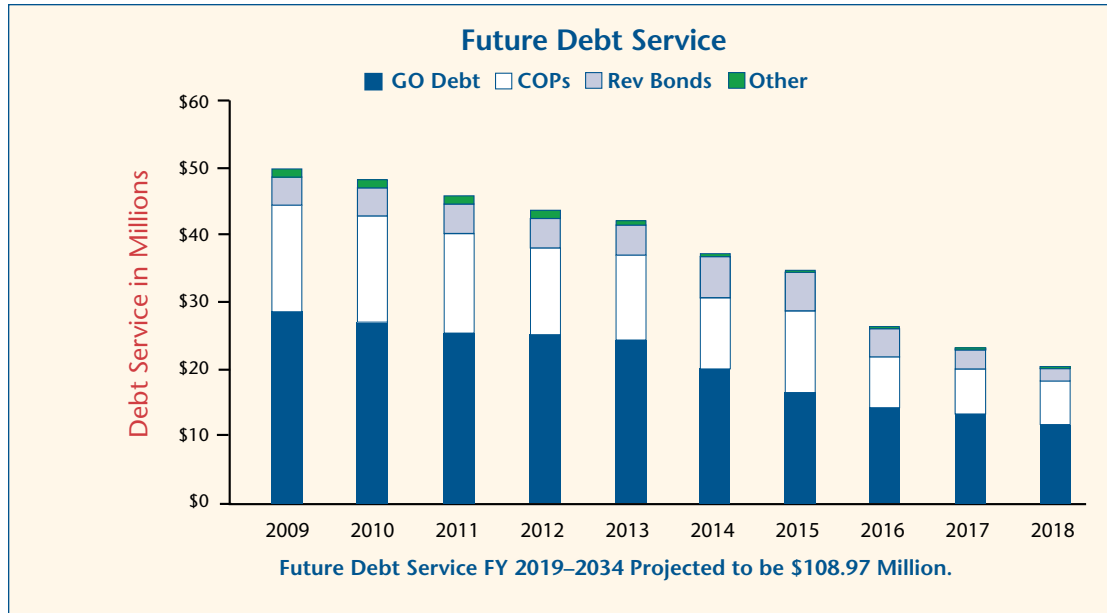
North Carolina General Statutes (Local Government Bond Act) limit the amount of debt that a unit of government can issue to 8 percent of the total assessed value of the taxable property located within that government's boundaries. Currently, the City has issued, or is permitted to issue \$420,815,261 in debt, leaving an unissued capacity of \$949,680,111, or an unissued debt margin of 69 percent.

New Debt Issues

On June 10, 2008 the City entered into an installment financing agreement in the amount of \$22,200,000 with Branch Banking & Trust Capital Markets. The proceeds were used for technology improvements, parks and recreational facilities, cultural and public safety facilities, various other public improvements, and the purchase of fleet motor vehicles and equipment.

Annual Independent Financial Audit

North Carolina State Statutes require that an annual audit be performed by an independent certified public accountant. This annual audit relates to the City's Comprehensive Annual Financial Report (CAFR), and the purpose of the annual audit is to ensure that the City is complying with generally accepted accounting practices (GAAP). In addition to meeting statutory requirements, the audit also complies with the Federal Single Audit Act. As it has in previous years, this year's Independent Auditor's Report confirms that the City's financial statements "present fairly, in all material respects, the respective financial position" of the City of Durham. All financial statement information contained in the Citizens' Financial Report is in conformity with GAAP; portions of the information in this report are taken from financial statements that are contained in the city's CAFR. For more detailed financial information, as well as the full set of notes that accompany the financial statements, visit the City's Web site at www.durhamnc.gov.



Debt Capacity

In addition to the legal debt margin, the City tracks several other benchmarks that provide guidance in determining how much debt the city can afford. Two of these measures are debt per capita and the ratio of debt to assessed valuation. The movement of these benchmarks over the last five years is illustrated in the chart below.

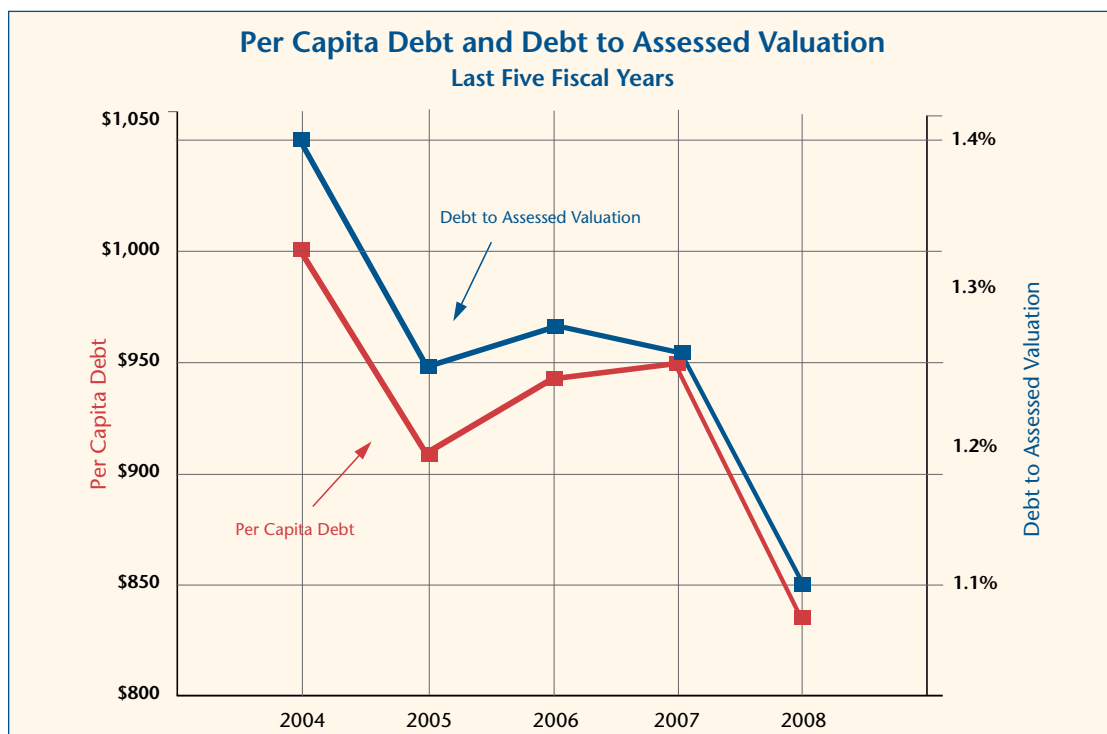
financed by the bonds, such as a utility system. On June 30, 2008, the City had \$34,535,000 outstanding in revenue bonds. Installment financing agreements like certificates of participation (COPs) are purchase agreements that pledge the value of the bonded asset to the buyers. On June 30, 2008, the City had \$120,045,000 in outstanding installment financing agreements.

Other Types of Debt

In addition to general obligation bonds, the City has categories of debt that are not tax supported. Revenue bonds are pledged by the net revenues from the facility

General Obligation Bonds Authorized and Unissued

On November 8, 2005, voters approved a \$110 million General Obligation Bond Referendum package. At fiscal year-end, \$10 million of these bonds had been issued, and



DEBT ADMINISTRATION

the City had the authority to issue an additional \$100 million of bonds. These authorized and unissued bonds, that must be issued prior to November 2012 are for the following purposes:

• Parks & Recreation	\$38,333,000
• Water and Sewer Improvements	\$18,000,000
• Streets and Sidewalks	\$15,509,000
• Cultural Facilities	\$ 9,005,000
• Parking	\$ 6,342,000
• Public Improvements	\$ 6,113,000
• Public Safety	\$ 5,195,000
• Neighborhood Improvements	\$ 1,500,000

On November 6, 2007, voters approved a \$20 million General Obligation Bond Referendum package for street and sidewalk improvements. These authorized and unissued bonds must be issued prior to November 2014.

If the City paid for large construction projects with only current funds, current taxpayers would pay 100 percent of the bill. Bonds are paid off over a number of years. By spreading the payments out into the future, everyone who moves to the area and utilizes the improvements also has to pay a share—thereby reducing the debt burden shared by current citizens.

Long-Term Financial Planning

Durham continued with its forward-looking capital budget, presenting a long-term Capital Improvement Program (CIP) to Council. The CIP is a statement of the City of Durham's policy regarding long-range physical development. It is vital to the City because it is the principal planning tool designed to achieve urban growth and development. This program is developed for a six year period and is updated and revised annually. To be included in the CIP, a project requires a total expenditure of at least \$100,000 and a useful life of at least 10 years.



City officials read the text on one of three historic marker sculptures unveiled on Parrish Street to commemorate the rich history of the area once known as "Black Wall Street."

Other Debt Issues

The City of Durham's total debt decreased by \$10,647,370 during the fiscal year ended June 30, 2008. On August 5 and 6, 2008, the City successfully closed on the sale of \$12,350,000 2/3rds general obligation bonds (Series A) and \$46,570,000 of general obligation bonds (Series B). The Series B bonds were comprised of \$38,570,000 from the 2005 general obligation bond authority, and \$8,000,000 from the 2007 general obligation bond authority. Proceeds from the 2/3rd bonds were used to fund various public safety facilities, culture and recreation projects and improvements to streets and sidewalks. Proceeds from the Series A and B financings were used to fund the following bond order projects:

The 2005 Bonds:

Purpose	Unissued	August Issue	Balance
Cultural Facilities	\$9,005,000	\$4,975,000	\$4,030,000
Neighborhood Improvements	1,500,000	240,000	1,260,000
Parking	6,342,000	335,000	6,007,000
Parks and Rec.	38,333,000	13,920,000	24,413,000
Public Improvements	6,113,000	4,680,000	1,433,000
Public Safety	5,195,000	4,080,000	1,115,000
Streets and Sidewalks	15,509,000	5,510,000	9,999,000
Water and Sewer	18,000,000	4,830,000	13,170,000
Total:	\$99,997,000	\$38,570,000	\$61,427,000

The 2007 Bonds:

Purpose	Unissued	August Issue	Balance
Streets and Sidewalks	\$20,000,000	\$8,000,000	\$12,000,000

DURHAM BY THE NUMBERS

WATER MANAGEMENT DEPARTMENT

81,698

Number of Customers

26,266 Mega Gallons

Average Daily Gallons Pumped

1,227 Miles

Water Mains

SEWER:

1,301 Miles

Sanitary Sewer

646 Miles

Storm Sewer

2008 POPULATION

222,672

DURHAM AREA

105.9
Square Miles

RECREATION & CULTURE

66

Number of Parks

8

Number of Libraries

585,430

Number of Volumes

FIRE

15

Stations

301

Personnel

CITY EMPLOYEES

2,220

PUBLIC WORKS

683.6

Miles of Streets

410

Miles of Sidewalks

18,477

Number of Street Lights

14,727

Bus Ridership Per Day

1,972

Number of Potholes Repaired

378

Number of Traffic Signals

POLICE

5

Stations

512

Officers

HUMAN RESOURCES

14,000

Applications Received

EQUAL OPPORTUNITY/EQUITY ASSURANCE

Small Disadvantaged Business Enterprises (SDBE's) received **12%** of the total dollars spent on construction and professional services contracting.



BUILDING PERMITS ISSUED

3,845

Per capita personal income grew by 6.1 percent in the Durham-Chapel Hill MSA last year, up from 5.5 percent in 2006 and well ahead of the 5.2 percent national average. Some of Durham's successes in 2008 include IBM's planned construction of a \$360 million data center and Merck's \$300 million expansion.

The City's downtown revitalization program includes rehabbing a number of historic buildings and focuses on bringing more residential units and shops into the heart of the Bull City. Durham continues to lead the Triangle in innovative transformations of its older facilities. Many vacant properties have been reborn into multi-use complexes without losing their historical aesthetics. Projects such as the American Tobacco Historic District and West Village have become showplaces of how Durham citizens can work, reside and spend their leisure time, all within a radius of a few city blocks.

A restoration project that came online during June 2008 is the Golden Belt complex. Golden Belt is one of Durham's last historic textile mills to be creatively reused. The Golden Belt complex is a 155,000 square foot mixed use campus that features office space, loft apartments and 35 artist studios that are open to the public.

The range of top attractions that Durham has to offer both tourists and its own citizens shows impressive diversity for a city of its size. Durham receives 5.2 million visitors per year. On a list prepared by the Durham Convention and Visitors Bureau, four of the top 10 are related to sports: the Durham Bulls Athletic Park at No. 1, Duke's Cameron Indoor Stadium and Wallace Wade Stadium at No. 4 and No. 8 respectively, and Durham County Memorial Stadium at No. 9. In addition to Duke University's stadiums, two other sites from the top 10 are at Duke: the Sarah P. Duke Gardens at No. 3 and Duke Chapel at No. 7. In addition to the Duke Gardens, other top sites show off the area's natural beauty: Rollingview State



The second phase of the West Village redevelopment project was completed in 2008 with more business and residential space opening in the former tobacco manufacturing facilities.



The Durham Farmers' Market is a major part of the development of the Durham Central Park area.

Recreational Area at No. 6 and the Eno River State Park at No. 10. The No. 2 spot, the Museum of Life and Science, also has started taking advantage of the outdoors, adding two exhibits on its campus in recent years.

As far as future top 10 attractions are concerned, the Nasher Museum of Art should make the top 10 next fiscal year when it gets a boost from the popular exhibit El Greco to Velazquez: Art During the Reign of Philip III. Renovations have begun at the Durham Athletic Park, a focal point and anchor of the Durham community since the early 1900s. Durham Athletic Park will once again serve as a venue for programming for Parks and Recreation special events and for league baseball. The Durham Performing Arts Center near the Durham Bulls Athletic Park also will boost the City's economy.

In the future Durham will continue to focus on life science and technology companies that have served as a foundation for the City's economic development. There will also be a spurt in new entrants from the environmental remediation cluster that includes firms dedicated to cleaning air and water, and developing alternative fuel sources.

DEVELOPMENT PROJECTS

Durham Performing Arts Center

The Durham Performing Arts Center (DPAC) is a spectacular architectural and cultural landmark in Durham. It will serve as a regional beacon for entertainment, drawing audiences from across the Piedmont. Studies have estimated the total economic impact of the DPAC at between \$7 million and \$11 million annually. Those estimates include everything from ticket sales, to salaries, to indirect impact such as money spent in hotels and restaurants. Specifically designed to present the biggest shows on tour, the DPAC puts you close to the action with no seat farther than 135 feet from the stage. The DPAC is a 2,800 seat multi-use performance theater that will house nationally renowned Nederlander productions, including Broadway shows, the American Dance Festival, and various other mid-size performances throughout the year. Featuring world class performers, spacious seating, state-of-the-art sound and lighting, and convenient parking, DPAC allows you to experience live performances in an entirely new way. From Broadway musicals to concerts, family shows to comedy, at DPAC you're up close.

Durham Central Park

This project includes the renovation of the upper level of the Durham Centre into a contemporary urban plaza and rooftop garden with gathering spaces, seating areas, and a showcase for public art. Step by step, this dream is becoming a reality. The park is being created through a successful public/private partnership between the City of Durham and a non-profit organization called Durham Central Park, Inc. Progress in the park is clear to see, from the colorful red street signs on every street corner in the area to the leafy grove that now represents Durham's special relationship with Sister Cities in other countries. The new George Watts Pavilion for the Arts, recently constructed by the non-profit organization Liberty Arts, Inc., beneath the park's magnolia mural, is a sure sign that the park will soon become a focal point for arts and culture.

Durham Athletic Park

The Durham Athletic Park (DAP) is undergoing a \$6.4 million renovation. Minor League Baseball will operate the DAP as a national training facility. The DAP has been a focal point and anchor of the Durham community since the early 1900's and



The Durham Station Transportation Center is set to open in early 2009.

served as the home of the Durham Bulls from 1926 until 1994. The film *Bull Durham* helped spark new interest in minor league baseball, and the enormous success of the Durham Bulls over the next 15 years prompted the City of Durham to build a new facility for the Bulls in 1995. Since 1995 the historic DAP has been used by the community as the home field for the Durham School of the Arts and as a venue for baseball and softball. The DAP is also used for concerts and festivals, such as the Bimbé Cultural Arts Festival, Bull Durham Blues Festival, and the World Beer Festival. In August 2007, ESPN ranked the DAP as the #1 "lost" baseball site worth exploring. Renovations planned for the DAP will upgrade the current site so that it can once again serve as a vital recreational site for this area of downtown. Plans include continued programming by Parks and Recreation, both youth and adult league baseball, and the use of the facility as a special events venue.

Durham Station Transportation Center

This is the cornerstone of Durham's future transportation district and home of local and regional bus and taxi service. It is adjacent to the Amtrak station. This station will be the crown jewel at the heart of a newly created "high-density" zone. This transportation hub will provide multiple alternatives to automobile traffic, an essential component needed to support more densely populated urban areas. This project is scheduled for completion in early 2009.

Greenfire

Another major piece of downtown's revitalization – Greenfire Development's multi-faceted, \$295 million redevelopment of the city's core —is progressing. Earlier this year, Greenfire and Durham County announced that they had reached agreement to build a \$7.5 million parking deck at the corner of Parrish and Church Streets, the current location of a city-owned parking lot. Greenfire will also design and build a nearly 200,000 square foot structure that will wrap around two or three sides of the new deck. Greenfire's Phase II downtown development is expected to create about 1 million square feet of new space, excluding parking. In addition to the Parrish and Church Street deck, the overall Greenfire development project includes construction and renovation at the following sites: Roger's Alley, the Hill Building, the former Woolworth's property, and the Chapel Hill Street Deck and lot.

Parrish Street

We continue to strive towards making Parrish Street a vibrant destination for culture, commerce, and learning. Liberty Arts, Inc., a non-profit organization, was chosen to provide design expertise to assist the City and the Parrish Street Advocacy Group in commemorating the history of Durham's "Black Wall Street" by creating a series of markers for historic Parrish Street. The six markers are freestanding and pedestrian-scaled. These markers include text that educates passersby about the history of Black Wall Street and symbols that are a part of African culture. Durham continues moving forward in the commemoration of Durham's Black Wall Street legacy and spurring economic revitalization along the street.

YOUR WATER & SEWER RATES AT WORK

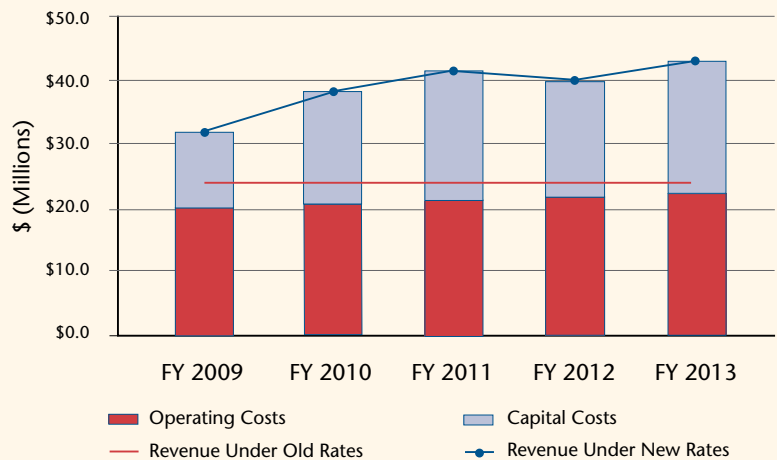
During the last budget cycle, Durham's City Council approved a new rate structure for Durham, one that ensures the economic viability of the system while providing conservation incentives and funds for significant capital improvements.

The City has expanded the water and sewer systems to keep pace with growth and is now challenged with meeting the next level of state and federal requirements and implementing long-deferred maintenance and/or construction. Funding the Capital Improvement Program (CIP) for the next five years will require approximately \$250 million.

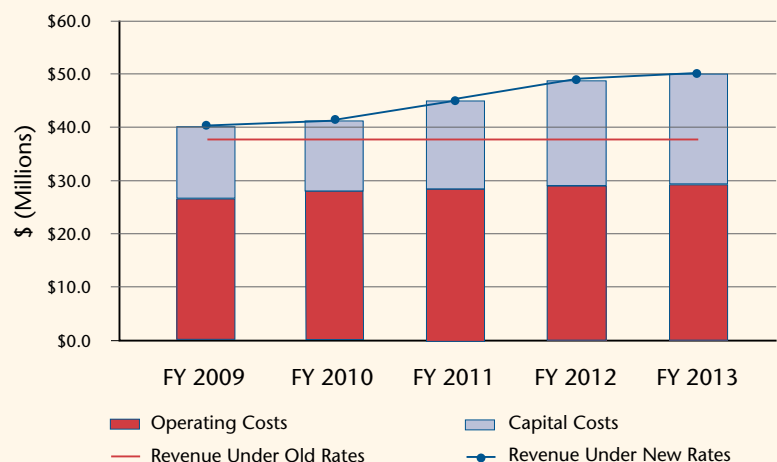
A short list of the projects that are in various stages of design, construction or implementation includes emergency water interconnections with both Raleigh and Cary, repairs to the dam at Little River Lake, renovations and upgrades at the City's two water treatment plants, new water lines near Duke University and a new elevated water storage tank in the southern portion of the system. There are also several sewer system projects included in the CIP such as repair and rehabilitation of existing sewer lines and upgrades and improvements to the City's two water reclamation (wastewater treatment) facilities. The Automated Meter Reading (AMR) project is scheduled to kick off early in 2009. With this project, the City will replace standard water meters with new radio-read models. Meters will be changed out district by district over the next two years. As district meters are changed out, staff will begin reading and billing the AMR metered accounts on a monthly basis.

All of these vital improvements require significant funds and costs that would not be met with the old uniform rate and service charge structure (see charts). Working with a widely recognized expert in developing and implementing rate structures, staff recommended a tiered rate structure for single family residential customers and increased water and sewer service charges for all customers. It is important that customers understand what the water and sewer service charges pay for. Sometimes referred to as "base charges" or "availability fees," these charges are intended to recover costs that are not related to the amount of water/sewer a customer uses. In addition to costs associated with billing, collections/cashiering, customer service and meter reading, service charges cover fixed costs such as meter and line maintenance. Service charges also support activities such as human resources, financial management and information, and perhaps most importantly, a portion of the water and sewer system's debt service. Because the service charges had been relatively flat for the past several years, the increase necessary to meet costs was relatively steep, but not out of line with cost increases nationally. Based on the results of a national rate survey conducted in 2006 by the American

Projection of Water Revenue Requirements



Projection of Sewer Revenue Requirements



Water Works Association, the median water service charge for similar-sized cities was \$5.92 per month. Assuming moderate annual inflationary increases of 2.5 percent, the projected median water service charge for 2008 would be \$6.23, which is approximately 21.7 percent higher than the City's current water service charge of \$5.12 per month. For wastewater utilities (using the same inflationary assumptions), the projected median sewer service charge of \$7.60 is approximately 32.8 percent higher than the City's sewer service charge of \$5.72 per month.

Customers should understand that although the City tries to keep rates and charges as affordable as possible, like most utilities, we are faced with cost pressures to meet our mission of providing safe drinking water, effective wastewater treatment and reliable service to customers. For information about the City's water and sewer rate structure, conservation tips or to use the on-line water bill calculator, visit www.DurhamSavesWater.org.

GENERAL FUND

Governmental Activities

During the current fiscal year, tax revenues (\$168,713,068) collected were approximately 7.4 percent more than taxes collected (\$157,130,211) in the prior fiscal year. Tax revenues covered approximately 81.6 percent of governmental activity expenses (\$206,780,287) approximately 4.4 percent less than in the prior year. Charges for services (\$29,213,698) were approximately 12.5 percent of all revenues collected, down from 18.0 percent for the prior year. Public safety accounted for approximately 36.0 percent of all expenses in governmental activities down from 39.4 percent in the prior year.

General Fund

The General Fund is the City's primary operating fund, and accounts for the revenue and expenditures associated with operating traditional local governmental services such as Police, Fire, and Parks and Recreation.

Here are the major sources of General Fund revenue:

- **General Property Taxes**—Tax levied annually on real and taxable personal property within the city.
- **Other Local Taxes**—Includes sales and hotel/motel tax.
- **Stated Shared**—Includes utility franchise, gasoline, beer & wine, and ABC taxes.
- **Licenses/Permits**—Includes cable TV franchise fee and professional & business licenses.
- **Charges for Services**—Includes fees for services such as inspections, development, parks, yard waste, etc.
- **Transfers from Other Funds**—Includes reimbursements for General Fund services provided to other funds.
- **Appropriations from Fund Balance**—Includes "reserves" transferred to the current year operating budget.



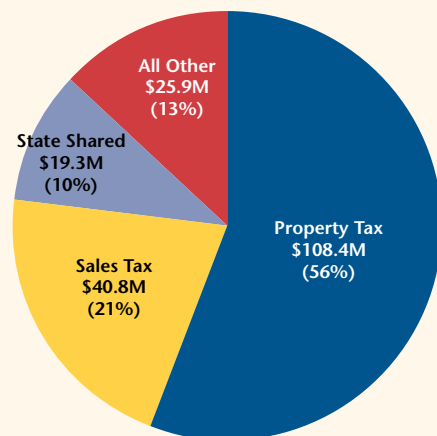
The Department of Water Management installed lines that allowed Hanson Aggregate's Durham Quarry to be used for raw water storage.

Here are the major components of General Fund expenditures:

- **Public Protection**—Police, Fire, Emergency Communications (911), and Emergency Management.
- **Community Service**—Planning, Inspections, Community Development, Neighborhood Improvement, Solid Waste, Public Works, and Water Management.
- **Administrative Services**—Finance, General Services, Human Resources, Human Relations, Technology Solutions, and Fleet Management.
- **Governance**—Council, City Manager, Budget, Economic Development, Clerk, Attorney, Audit, and Equal Opportunity/Equity Assurance.

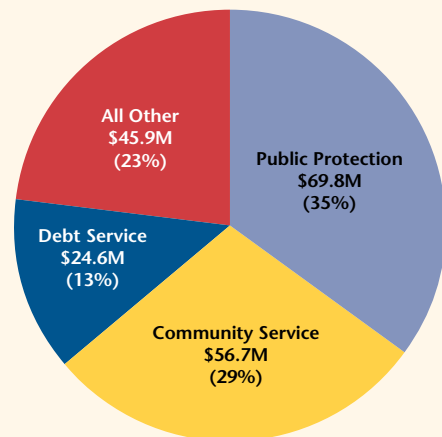
The following graphs show the breakdown by percentage of General Fund revenue and expenditures.

General Fund Revenue
Year Ended June 30, 2008



Total Revenue Equals \$194.4 Million

General Fund Expenditures
Year Ended June 30, 2008



Total Expenditures Equals \$197.0 Million

The government-wide financial statements are designed to provide readers with a broad overview of the City of Durham's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the City of Durham's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Durham is improving or deteriorating. The government-wide financial statements, the statement of net assets and the statement of activities, report information on all the non-fiduciary activities of the primary government and its blended component units. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The government-wide statements have incorporated long-term and short-term information to provide a complete picture of the City's finances. They also account for all revenues and expenses connected with the fiscal year, regardless of when the cash was received or spent.

The Statement of Net Assets on page 15 includes governmental and business-type activities. The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$868,294,437. Of this amount, \$190,382,390 may be used to meet the government's ongoing obligations to citizens and creditors. Total net assets increased by \$38,286,170 during the most recent fiscal year resulting from governmental and business-type activities. The increase in the governmental activities was \$19,204,535 while the increase in the business-type activities was \$19,081,635.



Parks and Recreation Director Rhonda Parker presents Mayor William V. "Bill" Bell with the department's certificate of accreditation from the Commission for Accreditation of Parks and Recreation Agencies.



The redevelopment of the Golden Belt district turned the former textile mill into 155,000 square feet of office space, apartments and artist studios.

Fraud Hotline

The City of Durham's Audit Services Department has an "online hotline" to help ensure fiscal responsibility and accountability throughout the City organization. Any person may file an anonymous or confidential report to disclose alleged fraud, waste, or abuse of City property and resources. A Fraud/Waste/Abuse Information Report form is available online at www.durhamnc.gov/departments/audit/fraud.cfm. Your name and email address will not appear anywhere on the report. A report can also be made by calling the Audit Services Department at 919-560-4213 during regular business hours, 8:30 a.m. to 5 p.m. Monday through Friday.

Durham Non-Emergency Number

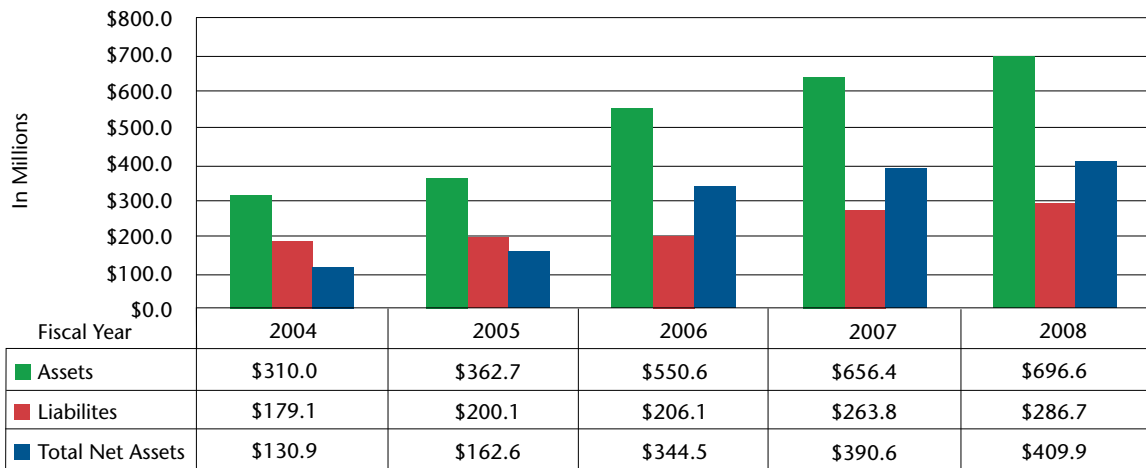
Barking dogs, loud music, burglaries taking place days earlier, vandalism to public or private property—these are the types of calls that can be reported to Durham's non-emergency Emergency Communications Center phone number. The number, 919-560-4600, was established to free up 911 lines for life threatening or in-progress emergencies.

Notice Under the Americans with Disabilities Act (ADA)

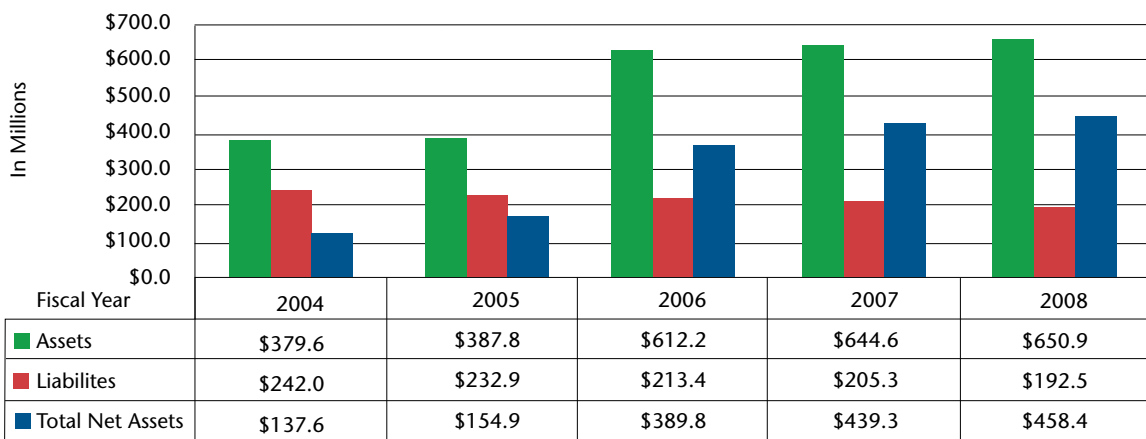
The City of Durham will not discriminate against qualified individuals with disabilities on the basis of disability. Anyone who requires an auxiliary aid or service for effective communications, or assistance to participate in a City program, service, or activity, should contact Stacey Poston, acting ADA Coordinator, Voice 919-560-4197 x254, TTY: 919-560-4809; Stacey.Poston@durhamnc.gov, as soon as possible but no later than 48 hours before the scheduled event.

STATEMENT OF NET ASSETS (Year ended June 30)

Governmental Activities

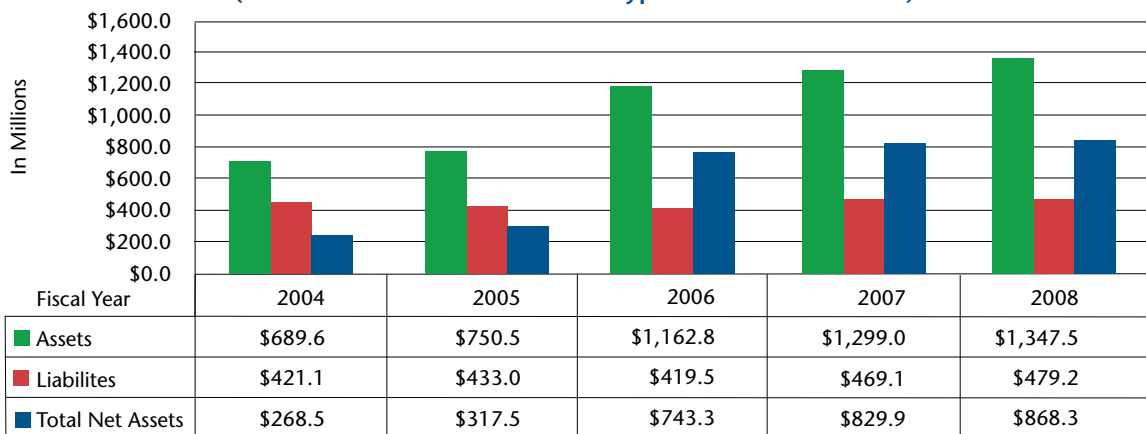


Business-type Activities



Total Primary Government

(Total Governmental and Business-type Activities from above)



The notes to the financial statements are an integral part of this statement. See CAFR for notes.



DURHAM



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CITY OF MEDICINE

This City of Durham's Citizens' Financial Report is a publication of the City Finance Department, 101 City Hall Plaza, Durham, NC 27701.

For more information about the City Finance Department, visit www.durhamnc.gov/departments/finance/ or call 919-560-4455.

For more information about City of Durham services, visit the City's Web site at www.durhamnc.gov or call Durham One Call at 919-560-1200.



www.durhamnc.gov



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